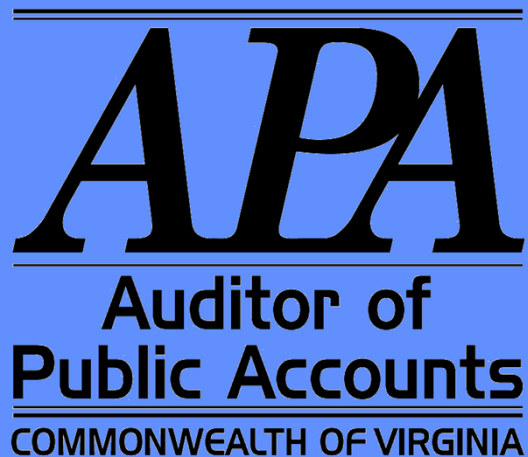


**REVIEW OF THE
BUDGET AND APPROPRIATION
PROCESSING CONTROL SYSTEM**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2010**



AUDIT SUMMARY

Our review of the Statewide Budget and Appropriation Processing Controls for the year ended June 30, 2010, found that the Department of Planning and Budget's policies and procedures are adequate to ensure that:

- Planning and Budget complies with requirements in the Appropriation Act and the Code of Virginia that could materially affect the Commonwealth's annual financial statements;
- CARS properly includes the budget approved by the General Assembly;
- Planning and Budget properly approves, documents, and reconciles budget adjustments in the Form 27 Automated Transaction System (FATS) to CARS at a statewide level; and
- Appropriation controls in CARS are adequate to ensure program expenses do not exceed appropriations.

One issue that remains unaddressed from our prior reports is budget transparency issues arising from budget adjustments processed by Planning and Budget. The most significant of these issues is the significant transfers of General Funds to various non-general funds for programs like Personal Property Relief as well as higher education programs.

Planning and Budget makes these transfers to comply with various requirements in the Appropriation Act, which allow for separate monitoring and tracking of these funds; however, the current practice creates a loss of funding transparency in the accounting records. We initially reported these budget transparency issues in 2006 and we continue to believe these issues affect the ability of the user to easily relate the budget to the actions of the Commonwealth.

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STATUS OF FINDING AND RECOMMENDATION, AND OTHER MATTERS

OTHER MATTERS

Status of Performance Budgeting System

Planning and Budget has been working on a system development initiative to replace their legacy budgeting systems and various other supporting applications. As we discussed in our report last year, Planning and Budget and the Virginia Information Technologies Agency (VITA) Enterprise Applications Division entered into a contract with an outside vendor to develop the Performance Budgeting System.

In September, 2010 Planning and Budget implemented Phase I of this system which covered budget development (operating and capital), six-year financial planning, and budget execution. Phase II of the implementation process should occur in June 2011 and will address agency spending plans and strategic planning. Phase III will include additional enhancements to the system and is scheduled for completion by Spring, 2012.

The current estimated funding for this project is \$11.4 million which comes from a working capital advance administered by VITA; however, Planning and Budget has received approval to allocate additional funds from the working capital advance to complete Phase III, which will bring the total estimated cost to \$15 million.

The Appropriation Act directs the repayment of the advance from enhanced collections, cost recoveries, inter-agency collaborative projects, and other initiatives. No repayment from these sources has occurred to date, but the 2011 General Assembly approved language and appropriations establishing an Enterprise Applications Internal Service Fund to pay for the ongoing operating costs of the Commonwealth's enterprise applications. Users will be assessed a surcharge based on licenses, transactions, or other meaningful identifier. We have reported additional information about the status of the Performance Budgeting System in our "Progress Report on Selected Systems Development Projects in the Commonwealth" which we issued in March, 2011.

FINDING AND RECOMMENDATION

We have a prior recommendation related to statewide budget transparency issues that remains unresolved and the following information provides an update on the status of this recommendation.

Address Budget Transparency Issues

We have reported on various budget transparency issues since 2006. Since that time, Planning and Budget has taken steps to address some of these issues, but there are still significant budget transparency issues remaining. One of the more significant transparency issues is the transfers of General Fund appropriations to various non-general funds for programs like Personal Property Relief as well as higher education programs. Planning and Budget makes these transfers to comply with various requirements in the Appropriation Act which allow for separate monitoring and

tracking of these funds; however, the current practice creates a loss of funding transparency in the accounting records. Chapter 874 of the 2010 Virginia Acts of the Assembly includes language that directs the Governor's Commission on Higher Education Reform, Innovation, and Investment to review the issue of higher education transfers and make recommendations by fiscal year 2012. Beginning in fiscal year 2011, the Appropriation Act includes the budget and expense of the Personal Property Tax Relief program as general fund dollars.

Another remaining budget transparency issue is an inadequate reporting process for administrative changes made to the budget after the General Assembly's approval. The current process does not provide adequate information to the General Assembly or the public of changes made to the budget during any fiscal year. Administrative adjustments can significantly alter the approved budget, and improved reporting of these changes to the General Assembly and public would increase the transparency of the budgeting process. In fiscal year 2010, administrative adjustments resulted in a \$7.1 billion overall increase in the budget and these changes are detailed in this report.

We believe these budget transparency issues affect the ability of the user to easily relate the budget to the actions of the Commonwealth. As the legislature and administration continue to explore making information on government more transparent and accessible, we continue to recommend that they address these issues. While we understand that this is a statewide issue and may remain until the Commonwealth completely replaces the current accounting and budgeting processes and systems, we continue to bring this issue to the attention of the Governor and legislature since the Administration is taking action to replace these systems.

REVIEW OF THE BUDGET AND APPROPRIATION
PROCESSING CONTROL SYSTEM

The Governor and Planning and Budget have certain statutory authority to increase, decrease, or transfer funds and positions during the implementation of the budget. This authority is primarily set forth in various sections of the Appropriation Act, and Planning and Budget refers to these budget changes as “administrative adjustments.”

In this report, we summarize the administrative adjustments processed by Planning and Budget in fiscal year 2010. There are adjustments to both the operating and capital budgets and we discuss these items in separate sections. In addition, Planning and Budget has responsibility for executing items within the Central Appropriations section of the Act. Central Appropriations are the mechanism in the Act to implement budget actions, which will affect multiple agencies and funds, and our report also includes a summary of Central Appropriations activity in fiscal year 2010.

Operating Budget Adjustments

Planning and Budget and agencies process administrative adjustments to the operating budget for a variety of reasons. These adjustments resulted in a net increase to the operating budget of \$7.1 billion in fiscal year 2010. Planning and Budget and agencies processed a significant number of adjustments to appropriate federal stimulus funds and these contributed to the increases shown below.

The following table summarizes adjustments by three types: federal stimulus adjustments, transfers, and adjustments, and reappropriations. Transfers generally move appropriations between agencies, programs, and/or funds, while adjustments and reappropriations generally represent increases in appropriations. Our summary below also shows the net effect of the adjustments on the General Fund and Non-General Funds.

Summary of Operating Budget Adjustments – Fiscal Year 2010

	<u>General Fund</u>	<u>Non-General Funds</u>	<u>Total</u>
Original budget, Chapter 781 (2009 Act)	\$15,843,232,198	\$22,007,356,570	\$37,850,588,768
Subsequent legislative amendments	(1,032,797,594)	439,580,584	(593,217,010)
Administrative adjustments:			
Federal stimulus adjustments	-	2,911,431,983	2,911,431,983
Transfers	(2,452,263,025)	2,466,077,583	13,814,558
Adjustments and Reappropriations	<u>270,327,888</u>	<u>3,953,116,622</u>	<u>4,223,444,510</u>
Adjusted budget as of June 30, 2010	<u>\$12,628,499,467</u>	<u>\$31,777,563,342</u>	<u>\$44,406,062,809</u>

We provide more detail in the sections that follow the table on the most significant administrative adjustments processed to the operating budget in fiscal year 2010.

Federal Stimulus Adjustments

With the passage of the American Recovery and Reinvestment Act of 2009, various Commonwealth agencies and programs received federal stimulus funds in fiscal year 2010. As a result, a significant portion of the increase in the operating budget during the fiscal year related to adjustments for the receipt of federal stimulus funds. While the budget and subsequent amendments approved by the General Assembly included some appropriations for federal stimulus funds, Planning and Budget had to record some of these funds through the administrative adjustment process. Planning and Budget and the Department of Accounts set up separate funds to budget and account for the stimulus funds, and processed administrative adjustments to set up federal stimulus appropriations for the agencies listed below.

Summary of Federal Stimulus Adjustments – Fiscal Year 2010

Virginia Employment Commission	\$ 982,325,000
Department of Transportation	698,233,205
Direct Aid to Public Education	641,375,139
Department of Social Services	95,993,061
Department of Mines, Minerals and Energy	68,277,236
Virginia Community College System	64,598,496
University of Virginia	62,884,894
Department of Medical Assistance Services	48,256,505
Department of Environmental Quality	44,180,053
Department of Housing and Community Development	34,131,947
Department of Criminal Justice Services	26,748,623
Virginia Polytechnic Institute and State University	24,424,461
Virginia Commonwealth University	16,896,668
Other agencies	103,106,695
Total	<u>\$ 2,911,431,983</u>

Transfers

Appropriation transfers typically move appropriations between agencies, programs, and/or funds. There are generally three types of transfers – transfers within general funds, transfers within non-general funds, and transfers between general and non-general funds. Additionally, over the past three fiscal years there have been transfers to move funds between the operating and capital budget; however this type of transfer was not significant in fiscal year 2010. We have summarized transfers that occurred in fiscal year 2010 and their net effect on the budget in the following table.

Summary of Transfers in Operating Budget – Fiscal Year 2010

	<u>General Fund</u>	<u>Non-General Fund</u>	<u>Total</u>
General fund to non-general funds	(\$2,452,588,378)	\$2,452,849,506	\$ 261,128
General fund from capital budget	130,882	-	130,882
Other transfers	<u>194,471</u>	<u>13,228,077</u>	<u>13,422,548</u>
Total transfers	<u>(\$2,452,263,025)</u>	<u>\$2,466,077,583</u>	<u>\$13,814,558</u>

As in past years, transfers between general and non-general funds had a significant impact on the budget in fiscal year 2010. These transfers, required by the Appropriation Act or the Code of Virginia, usually occur so that the Commonwealth can maintain separate bookkeeping for certain types of General Fund activities. Historically, Accounts has moved these General Fund amounts to Non-General Fund accounts to separate the funds to monitor and control the spending of the appropriation. The creation and use of these funds changes the nature of how both the accounting and budget systems show these funds and creates budget transparency issues as we have reported previously.

The general to non-general fund transfers represents various individual amounts, with the two largest transfers relating to higher education operating funds and the Personal Property Tax Relief program. Below is a list of the most significant transfers of this type along with the applicable reference to Chapters 781 and 872 Appropriation Acts.

To Higher Education Operating Funds (Section 4-1.03)	(\$1,661,832,371)
To Personal Property Tax Relief Act (Item 471)	(950,000,000)
To Commonwealth Transportation - 2007 Transportation Initiative (Item 462 A)	(29,843,716)
To U.S. Route 58 Corridor Development Fund (Items 459 B.1.)	(26,797,637)
To Northern VA Transportation District Fund (Item 264 A)	(19,679,993)
To Land Resource Management Initiatives (Item 361)	(15,800,000)
To Other Non-General Funds (various items)	(11,145,422)
To General Fund from Budget Reductions (4-1.08)	<u>262,510,761</u>
Total net transfers from General Fund to Non-General Funds	<u>(\$2,452,588,378)</u>

Adjustments and Reappropriations

Adjustments and reappropriations generally result in an increase in the original budget. There are several different types of adjustments in this category. We summarize below their impact on the general and non-general funds in the fiscal year 2010 operating budget.

Summary of Adjustment and Reappropriations in Operating Budget – Fiscal Year 2010

	<u>General Fund</u>	<u>Non-General Fund</u>	<u>Total</u>
Sum sufficient appropriations	\$ 21,090,759	\$2,308,934,702	\$2,330,025,461
Additional revenues	148,328	1,164,130,916	1,164,279,244
Carry forward prior year cash balances	-	338,667,429	338,667,429
Mandatory reappropriations	154,905,628	-	154,905,628
Discretionary reappropriations	34,065,538	-	34,065,538
Deficit appropriations	60,117,635	-	60,117,635
Other adjustments	<u>-</u>	<u>141,383,575</u>	<u>141,383,575</u>
Total adjustments and reappropriations	<u>\$270,327,888</u>	<u>\$3,953,116,622</u>	<u>\$4,223,444,510</u>

Sum Sufficient Appropriations

A sum sufficient appropriation is a mechanism within the Act to allow the Governor and agencies to deal with unique programs. The Act uses this type of appropriation primarily in two situations: when a program revenue or expense requires some flexibility or to avoid double counting expenses in the budget. An example of the first situation is lottery prize payment funding. The State Lottery Department requires flexibility for this expense as the disbursement of lottery prize payments changes from year to year. In the second situation, the Commonwealth uses a sum sufficient appropriation in an internal service program to avoid double counting expenses in the budget. Sum sufficient appropriations may have limits set by a “not to exceed” amount within the language of the Act, or the Act provides no specific dollar spending limit but instead sets a limit of actual amounts collected.

The Administration of Health Insurance, which is the Commonwealth’s self-insured health benefit program for employees, accounts for most of the sum sufficient appropriations in the table below. The Department of Human Resource Management manages the Administration of Health Insurance program by collecting premiums from state agencies for employees to cover state employee health claims. The current budget process includes the cost of employee health insurance in the agency’s budget. Therefore, the Commonwealth budgets the Administration of Health Insurance costs as a sum sufficient so as not to double-count these amounts in the Budget Bill and the Appropriation Act. The following table shows the largest sum sufficient adjustments by agency and program processed by Planning and Budget in 2010.

Sum Sufficient Adjustments for Fiscal Year 2010

<u>Agency Name</u>	<u>Program</u>	<u>Amount</u>
Administration of Health Insurance	Personnel Management Services	\$1,060,250,000
Department of Taxation	Tax Value Assistance to Localities	453,000,000
Virginia Information Technologies Agency	Computer, Telecommunications and Northrop Grumman Payments	295,573,955
State Lottery Department	Lottery Prize Payments	230,000,000
Department of General Services	Procurement, Plant Management and Other Services	159,477,623
Other agencies	Various	134,723,883
Total		<u>\$2,330,025,461</u>

Additional Revenue Appropriations

Additional revenue adjustments primarily impact non-general funds and occur when resources exceed the amount initially budgeted and appropriated. Agencies request these increases so they can spend the additional funds. For example, additional funds may become available under a federal grant that an agency did not anticipate during the budget development process. In this case, an agency would need to request an additional appropriation to spend these funds. In some cases, the additional resource may not solely represent revenue collections, but may also include bond

proceeds or other sources of receipts not originally anticipated. The following table shows the amount of this type of adjustment by agency in fiscal year 2010.

Additional Revenue Adjustments for Fiscal Year 2010

<u>Agency</u>	<u>General Explanation for Adjustment</u>	<u>Amount</u>
Virginia Employment Commission	Funding for increased unemployment insurance benefits	\$ 428,820,000
Virginia Community College System	Funding for enrollment increases and additional financial aid	210,889,607
Administration of Health Insurance	Funding to cover increased enrollment in healthcare costs in the local choice health benefits program	85,000,000
Direct Aid to Public Education	Funding to cover projected reimbursements from school divisions for Title I Grants	75,000,000
Department of Medical Assistance Services	Funding to cover expenditures in the Medicaid Program	74,889,704
Department of Social Services	Increase federal grant appropriation in the LIHEAP Program	50,000,000
Other agencies	Various increases	<u>239,679,933</u>
Total		<u>\$1,164,279,244</u>

Carry Forward of Prior Year Cash Balances

These adjustments represent unspent cash in non-general funds at the end of a fiscal year which agencies request to use in the following year. These adjustments are necessary if an agency wishes to use the unspent balance, and during the budget development process most agencies cannot predict if these balances will be available as a funding source. The following table shows the most significant carry forward adjustments processed in 2010 by agency.

Carry Forward of Non-General Fund Cash Balances for Fiscal Year 2010

Department of Transportation	\$135,788,848
Virginia Commonwealth University	102,373,440
Department of Environmental Quality	15,249,113
Virginia Retirement System	11,805,508
Department of Aviation	10,492,906
Virginia Enterprise Applications Program	9,218,746
Secretary of Commerce and Trade	8,825,000
State Corporation Commission	8,492,136
Other agencies	<u>36,421,732</u>
Total	<u>\$338,667,429</u>

Mandatory and Discretionary Reappropriations

Reappropriations represent increases for unspent general fund cash balances at the end of a year that an agency carries forward into the next fiscal year. As a general rule, unspent general fund balances at the end of a fiscal year revert to the Commonwealth's General Fund. There are two types of reappropriations – mandatory and discretionary. The Appropriation Act requires that some unspent general funds automatically carry forward and the Act refers to these as mandatory reappropriations. Mandatory reappropriations totaled \$155 million in fiscal year 2010 and decreased significantly from the prior year. Mandatory reappropriations were \$405 million in 2009 due to required reappropriations from the 2007 Transportation Initiative.

The Governor also has the authority to approve reappropriation of unspent general fund cash balances at the end of a year, and the Commonwealth refers to these items as discretionary reappropriations. Discretionary reappropriations totaled \$34.1 million in fiscal year 2010.

Deficit Appropriations

During fiscal year 2010, the Governor authorized a \$59.7 million deficit appropriation to fund program costs, which the Appropriation Act had originally designated be funded from the Fiscal Stabilization portion of the American Recovery and Reinvestment Act of 2009 funds. Planning and Budget received additional information after the 2009 General Assembly session that indicated there were restrictions on the use of Fiscal Stabilization funds which made them unavailable for their intended use.

To ensure the uninterrupted delivery of program services, the Governor authorized a deficit loan to fund the program expenses. During the 2010 session, the General Assembly amended the Appropriation Act and identified other funding sources for the programs and eliminated the need for the deficit loan.

Central Appropriations

Planning and Budget also has responsibility for executing items within the Central Appropriations section of the Act. The Act uses a section known as Central Appropriations to implement budget actions, which will affect multiple agencies and funds. Central Appropriations also serve to deal with budgetary decisions which do not require the action of an individual agency, but may require multiple agencies to execute the action. Central Appropriations includes the funding for the Personal Property Tax Relief Act, which requires the segregation of the funding and the joint cooperation of the Departments of Motor Vehicles and Accounts.

Planning and Budget and Accounts establish an agency on their systems to control the budgetary transactions arising from the Central Appropriations actions in the Act. Planning and Budget relies on information from other agencies to determine the amount and allocation of the Central Appropriations to individual agencies. For example, employees were required to take one furlough day in fiscal year 2010 which resulted in cost savings. To process the savings related to the furlough day, Planning and Budget used payroll information from Accounts and agencies to determine the amount agencies were required to transfer back to Central Appropriations.

Total appropriations in Central Appropriations in fiscal year 2010 were approximately \$917 million, most of which relates to the personal property tax relief program. A brief description of the more significant programs and actions included in Central Appropriations for fiscal year 2010 follows.

Personal Property Tax Relief (Item 471)

This item includes the Commonwealth's portion of the Personal Property Tax Relief amounts paid to localities for registered vehicles assessed at \$20,000 or less and limited to personal use. The General Assembly capped the total amount for the tax year 2006 at \$950 million in general funds, which was still effective for fiscal year 2010. Planning and Budget subsequently made quarterly transfers from this account to Agency 850 - Personal Property Tax Relief so that Accounts could distribute the amount to localities.

Tobacco Settlement Funds (Item 470)

This item provides spending authority for the Tobacco Indemnification and Community Revitalization Fund and the Virginia Tobacco Settlement Fund from amounts the Commonwealth receives under the Master Settlement Agreement with tobacco manufacturers. In fiscal year 2010, the Tobacco Indemnification and Community Revitalization Fund and Virginia Tobacco Settlement Fund received a \$91.6 million appropriation.

Payments for Special and Unanticipated Expenditures (Item 473)

This item provides general funds to address emergency or other unanticipated expenses that may arise during the fiscal year. In fiscal year 2010, Planning and Budget allocated \$43 million in general funds for this item in addition to a carry forward from fiscal year 2009 totaling \$20.2 million. The majority of the funding usage was \$19.5 million for the for Base Realignment and Closure assistance as required by the Appropriation Act, \$9.7 million to state agencies for increased information technology and payroll service bureau costs, and \$9 million for Rolls Royce economic development incentives. At the end of the fiscal year, \$22.3 million remained unspent for this item.

Capital Budget Adjustments

In fiscal year 2010, administrative adjustments to the capital budget resulted in a net increase of approximately \$4.7 billion. Most of the adjustments represent unspent appropriations at the end of a fiscal year that automatically carry forward into the next fiscal year.

Summary of Capital Budget Adjustments – Fiscal Year 2010

	<u>General Fund</u>	<u>Non-General Fund</u>	<u>Total</u>
Original budget, Chapter 781 (2009 Act)	\$ 800,000	\$ 702,909,350	\$ 703,709,350
Subsequent legislative amendments	913,000	107,820,972	108,733,972
Transfers:			
General funds moved from capital to operating budget	(130,882)	-	(130,882)
Other Transfers	(360,256)	(15,695,669)	(16,055,925)
Administrative adjustments:			
Carry forward of prior year balances	11,047,890	4,763,853,837	4,774,901,727
Other Non-General fund appropriations and additional revenues	<u>-</u>	<u>151,773,352</u>	<u>151,773,352</u>
Adjusted budget as of June 30, 2010	<u>\$ 12,269,752</u>	<u>\$5,710,661,842</u>	<u>\$5,722,931,594</u>



Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

April 15, 2011

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable Charles J. Colgan
Chairman, Joint Legislative Audit
and Review Commission

INDEPENDENT AUDITOR'S REPORT

We have completed a **Review of the Budget and Appropriation Processing Control System** administered by the Department of Planning and Budget for the year ended June 30, 2010. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives

The overall purpose of our audit was to evaluate the adequacy of statewide budget and appropriation processing controls. The following objectives satisfy the audit's purpose by determining whether policies and procedures were adequate to ensure:

1. Planning and Budget is in compliance with requirements in the Appropriations Act and the Code of Virginia that could materially affect the Commonwealth's annual financial statements;
2. The budget approved by the General Assembly is properly recorded in the Commonwealth Accounting and Reporting System (CARS);
3. Appropriation controls in CARS are adequate to ensure program expenses do not exceed appropriations; and
4. Budget adjustments processed by Planning and Budget in the Form 27 Automated Transaction System (FATS) are properly approved, documented, and reconciled to CARS at the statewide level.

We also reviewed corrective actions of audit findings from the prior year audit report.

Audit Scope and Methodology

Planning and Budget's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over Planning and Budget's budgetary process.

We performed audit tests to determine whether Planning and Budget's controls over the budgetary process were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations. Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of Planning and Budget's operations.

We tested transactions and performed analytical procedures, as we considered necessary to achieve audit objectives. Our review included research of relevant sections of the Code of Virginia, the Appropriation Act, and applicable policies and procedures at Planning and Budget and the Department of Accounts. It included gaining an understanding of the budget process, including reconciling, and monitoring the budget approved by the General Assembly. In addition, we reviewed and analyzed adjustments made to the budget, appropriation controls in CARS, and access to budget systems.

Conclusions

We found that Planning and Budget's policies and procedures for the budget and appropriation process control system were adequate to ensure that:

1. Planning and Budget is in compliance with requirements in the Appropriation Act and the Code of Virginia that could materially affect the Commonwealth's annual financial statements;
2. The budget approved by the General Assembly is properly recorded in CARS;
3. Appropriation controls in CARS are adequate to ensure program expenses do not exceed appropriations; and
4. Budget adjustments processed by Planning and Budget in the Form 27 Automated Transaction System (FATS) are properly approved, documented, and reconciled to CARS at the statewide level.

We noted no matters involving internal control and its operation that we consider necessary to be reported to management. The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Planning and Budget has taken some corrective action with respect to an audit finding reported in the prior year but this finding is not completely resolved as of the date of this report. This is discussed in the section entitled “Status of Finding and Recommendation, and Other Matters.”

Exit Conference and Report Distribution

We discussed this report with Planning and Budget management on April 26, 2011. Planning and Budget management concurred with the report and elected not to do a formal agency response.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

LCW/alh

Background Information on the Commonwealth's Budget Process

Virginia has a biennial budget system, which means it adopts a two-year budget. The budget development process involves many participants and spans several months. The Act is a special piece of legislation to authorize the spending of the projected revenues approved by the General Assembly and the Governor. The Virginia Constitution limits appropriation acts to a life of two years and six months, unless shortened by the Act, and requires balancing the total biennial budget.

The Commonwealth budgets expenses based on projected state revenues. State statutes differentiate revenues into two broad categories: general and non-general funds. Non-general funds are revenues that, by law or external authorities, support specific programs, activities, or purposes.

General funds consist primarily of taxes paid by Virginia citizens and businesses, including fees and other revenues that support basic governmental programs. The Governor and General Assembly have more discretion in allocating general funds to programs than non-general funds. The Commonwealth budgets separately for operating expenses and capital projects due to the long-term and non-recurring nature of capital expenses.

The Governor and Planning and Budget have certain statutory authority to increase, decrease, or transfer funds and positions during the implementation of the budget. This authority is primarily set forth in Section 4-1.00 of the Act, but there are also other requirements throughout the Act.

Section 4-1.00 establishes the overall criteria by which an agency can request appropriation adjustments. The Director of Planning and Budget has further delegated his authority over certain types of adjustments to Planning and Budget staff, and documented this delegation of authority in a memorandum, effective November 19, 2009. Under this delegation, for example, Planning and Budget analysts have the authority to transfer appropriations between programs within an agency; however, appropriations transfers between agencies require authorization by a Planning and Budget Associate Director or the Director.

Upon approval of the Act, the Division of Legislative Services sends an electronic file with the appropriation data to Planning and Budget. Planning and Budget performs various control procedures to ensure the file's completeness and accuracy and then creates the budget development master (BDM) file on the mainframe. Planning and Budget then creates an execution master (EXM) file from the BDM file along with a copy for Accounts. Planning and Budget procedures vary depending on whether the file contains a new biennial budget or amendments to an existing budget. Accounts accesses its appropriation file copy and uploads the data to CARS.

The appropriations set forth in the Act set annual legal spending limits by secretarial area, agency, program, and project. Automated edit controls within CARS ensure agencies do not exceed their spending authority at each of these levels. CARS edit controls analyze expenses to determine if appropriations and allotments are sufficient before paying an expense transaction. However, there are instances where Accounts can override transactions that do not meet appropriation edit controls.

Although Accounts may override the controls, Accounts implements additional manual control procedures to ensure that agencies do not exceed their authorized appropriation levels.

Planning and Budget operates several information systems that support the budget process. Planning and Budget processes most administrative changes to the budget in fiscal year 2010 through a system called FATS. Planning and Budget maintains FATS and controls the granting and deleting of access for individual users. Agency personnel initiated most budget adjustments and staff of Planning and Budget approved and processed these adjustments through FATS. During fiscal year 2010, Planning and Budget processed over 4,600 budget adjustments through FATS.

After Planning and Budget approval of FATS transactions, staff uploaded FATS transactions into an EXM file on the mainframe, which updated CARS on a nightly basis. Planning and Budget and Accounts staff reviewed a daily listing to verify the proper processing of FATS transactions in CARS. Amendments to the Act approved by the General Assembly do not go through FATS, but go directly to Accounts for uploading to CARS. Within FATS, Planning and Budget used alpha codes to differentiate types of budget adjustments. The FATS adjustment type code initiated the proper program budgeting adjustment and when uploaded to CARS identified the correct transaction codes for recording in CARS.

There were a few types of routine appropriation adjustments that did not flow through FATS that were loaded directly to the EXM file and recorded directly in CARS. An example of this is the transfer of the initial higher education general funds appropriations to non-general funds and the transfer of transportation general funds to non-general funds.

While Planning and Budget processed appropriation adjustments in FATS for 2010, they have implemented a new Performance Budgeting system as discussed earlier in this report. Beginning in September 2010, agencies and Planning and Budget began using the new system to process appropriation adjustments.

AGENCY OFFICIALS

Daniel S. Timberlake, Director
Department of Planning and Budget